

AFR/TR/ARD  
PIN-AAZ-447  
ISN 55273

Unclassified

COUNTRY DEVELOPMENT  
STRATEGY STATEMENT

FY 1986 UPDATE

Senegal

March 1984

Agency for International Development  
Washington, D.C. 20523

Unclassified

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### ANNEX I

Aide Mémoire: Comments by the World Bank  
(Jan. 20, 1984) on a Draft Report Prepared  
by the Ministry of Rural Development  
on the Current Status of the Agriculture Economy  
and Future Policies.

### ANNEX II

USAID/Senegal Non-Project Assistance:  
A Balance Sheet of Conditions Satisfied to Date,  
March 21, 1984.

## EXECUTIVE SUMMARY

The last nine months have been an exciting time in Senegal. Faced with a deteriorating economic situation complicated by the unfavorable international climate (high energy costs, highly variable world market prices for Senegal's exports and continual drought), the Government of Senegal has taken some of the tough decisions necessary to put their house in order.

The performance of the Government so far during the current IMF Standby suggests that the political will now exists to attempt to redress the situation. In each area performance has exceeded IMF requirements. In addition, the removal of all consumer subsidies on food and some other consumer products in the last three years is a remarkable achievement. The dialogue between the Government and donors on solutions to Senegal's problems is intensifying. The President himself has made it clear to the donors that he is seeking help and suggestions as he makes decisions on Senegal's medium- and long-term prospects.

On the other hand, there are major problems to be addressed. Food production is not keeping pace with population growth. Structural problems of the economy which are hampering growth must be corrected. The nature of the problems has been clear to the Government for several years, but they now urgently require effective address. Progress will not be easy and will require resolve on the part of the Government and the donors.

USAID is now reassessing its strategy to determine where we can most effectively assist the Government to develop the unexploited potential which exists in the economy. Even a cursory examination shows that there is potential for substantial improvement with correct market-oriented policies and appropriate infrastructure. Over the next few months we will be exploring that potential for inclusion in the new CDSS to be submitted in the first quarter of FY 1985.

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USAID/Senegal

Country Development Strategy Statement: An Update

March, 1984

I. INTRODUCTION

Two subjects dominate the USAID/Senegal agenda in FY 1984. The first is Senegal's continuing financial crisis; the second, Senegal's dramatic food deficit, especially given its long term implications for Senegal's economy. Both trouble areas now involve the Mission in frequent, even daily, contact with Senegal's chief policy makers and with the other donors concerned with policy issues, principally the World Bank, the International Monetary Fund, and France's Caisse Centrale.

The measures under discussion to resolve the two crises are essentially the same as those put forward by President Abdou Diouf himself, when, as Prime Minister in December 1979, Mr. Diouf presented his Structural Adjustment Program (Plan de Redressement) to the National Assembly for immediate adoption. The results of this program between 1980-1983, particularly the reform of agricultural institutions, have been mixed. Unfavorable rainfall, exchange rates, and international terms of trade are partly to blame. Over the past nine months, spurred on by hard times, both Senegal and her most important benefactors have shown that they are resolved to pursue the Plan proposals further as quickly as they can. Senegal has moved on a number of fronts: removing consumer subsidies, reducing agricultural debt, and restraining growth in the public sector.

The fact that the Government of Senegal has been willing to take some tough political decisions is of the utmost importance to the U.S. program. Under the present Country Development Strategy Statement, U.S. economic assistance is designed primarily to encourage the implementation of the structural reforms, particularly certain of those in agriculture, set forth in Senegal's Plan de Redressement.

The Mission is scheduled to prepare a new CDSS in FY 1985. The revised USAID strategy will depend on a determination of how best to assist the government in its efforts to increase production and tackle the high population growth rate. In drafting the new CDSS, the Mission will be partly guided by the Agriculture Sector Policy Analysis which gets underway in March, 1984.

The present document is designed to serve as a point of departure for the reassessment of the USAID strategy in Senegal. This CDSS Update characterizes the current situation in agriculture and finance; it points up the mixed record of reforms since 1980; and it summarizes the present position of the major donors, including USAID, in their dialogue with the Government on the further measures which must be taken. The paper then concludes with the question of what USAID's role should be in the next CDSS period, FY 1987-1990.

*What does  
this mean?*

## II. THE HARSH REALITY

No one questions the gravity of Senegal's present situation, with long-term trends spiralling downward. On February 23, 1984, President Abdou Diouf took an unprecedented step. The President convoked his eight principal Ministers and carefully selected representatives of six major donors (the U.S., France, IBRD, IMF, FED, and UNDP). For three and a half hours, the President led a remarkably frank discussion of what must be done to assure Senegal's economic future. Donors were unanimous in sensing the seriousness with which the President viewed Senegal's economic stagnation and his apparent readiness to make fundamental changes. In closing, President Diouf declared he would reflect on the points raised and decide on steps to be taken. The President subsequently announced that he will call follow-up meetings, with his Ministers alone, in late March and April, 1984.

### A. External Factors

Factors which are presently beyond Senegal's control have seriously undermined Senegal's economic performance in recent years. Drought has dramatically affected three out of the past five harvests in the years 1979/1980 to 1983/84. We now estimate that in 1983/84 domestic cereals production declined by at least one-third from the previous year's production, leaving a food deficit of close to 300,000 MT. Senegal will meet some of this deficit through supplementary food aid but will have to import the balance commercially, with consequent implications for Senegal's balance of payments and public finances.

As a result of both an unfavourable shift in the relative foreign exchange value of imports and exports and the spectacular increase of the U.S. dollar against the CFA franc (between 1980 and 1983 the U.S. dollar's value increased by approximately 80%), Senegal has experienced a considerable deterioration in its terms of trade since 1975. Independent of the exchange factor, moreover, the world price for peanut oil (Senegal's major export) has been very low when Senegal's peanut production has been relatively high, and vice-versa, over the last three years. In 1983 the terms of trade was estimated at an index of 66 compared to an index of 100 in 1975. The major consequences of this trend have been: (1) a rising balance of payments deficit as export receipts have declined in comparison with import costs, particularly for food and petroleum products; and (2) increased pressure on the public finances as the CFAF costs of reimbursing interest and capital on dollar-denominated debt have skyrocketed. About one-third of Senegal's public external debt is denominated in dollars.

The oil bill rose from \$76 million in 1976 to \$240 million in 1982, representing an average annual increase of 35%. Although world oil prices have declined somewhat over the last two years Senegal has not been able to take advantage of this due to unfavourable exchange rate movements.

To the extent that the Government of Senegal could offset these external factors by bold decisions with quick results, the President has largely taken these decisions: removing all consumer food subsidies in a three year period,

raising taxes, and holding public sector hiring to 2.4 percent or below in two out of the past three years -- just to give three examples. Senegal's generally favorable record with the IMF has permitted the Government to achieve the rescheduling of Senegal's external debt over the past three consecutive years. We will discuss these positive developments in greater detail in the rest of this paper.

What was clearly evident to the President in his meeting on February 23rd, however, was that these (and other) measures have not been sufficient. As difficult as fundamental reform may be, affecting entrenched interests and long-established behavior, key trends and indicators show that the President has no option.

#### B. The Situation in Agriculture (\*)

-- Senegal is more dependent upon imports to feed her population than 20 years ago:

-based on five-year averages, Senegal cereal production has increased since 1960 by 1.5 percent annually; population has increased by at least 2.7 percent per year (more likely 3.0 percent). Production in 1983 was off sharply.

-In an average year, Senegal now grows only 55 percent of the cereals consumed (660,000 MT produced vs. 1,200,000 MT required.)

-Rice imports averaged 240,000 MT per year during the period 1977-1981. In the last three years, rice imports have increased 67 percent and may reach 400,000 MT in 1984. (Wheat imports levelled off at 100,000 MT annually following the rise in bread prices in 1980.)

-- Senegal can no longer afford to pay the rising costs of these food imports.

-Even in the best of the past 20 years, Senegal's export earnings have covered only 80 percent of her import bill. In the past five years, the figure has dropped to 50 percent. Meanwhile, the cost of Senegal's cereal imports rose by 175 percent between

the period 1971-73 and the period 1979-1981. Cereals account for 20 percent of Senegal's imports and for the same share in the growth of Senegal's balance of payments deficit.

-Senegal is becoming more dependent upon food aid, which increased by 60 percent between the period 1975-77 and the period 1979-81.

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(\*) See especially "La Filière Céréalière: Note de Situation et Propositions d'Action", by A.K. Sidibé, Senior Advisor, Ministry of Rural Development, 60 pp. (mimeo), Dakar, July, 1983.

- Strong measures will be required to reverse these trends in order to achieve the level of food self-sufficiency which the Government of Senegal considers "tolerable" (80 percent).

- To achieve 80 percent self sufficiency by 1990, annual cereals production must increase by 5.6-7.1 percent. To achieve 80 percent between 1984-2000, annual production must increase by 4.1 - 5.2 percent. These figures contrast with the 1.5 percent rate which prevailed between 1960-1980.

C. The Situation in the Economy Generally: Senegal's GDP in 1983 is estimated at \$2.3 billion. External debt totals \$1.5 billion (\$1.4 billion public, \$100 million private). Government debt to the domestic banking system exceeds \$500 million, not including the indebtedness of parapublic enterprises.

- Factors associated with the agriculture sector have been principally responsible for the near collapse of Senegal's banking system.

- In July, 1983 the Government owed the banking community \$250 million, plus interest, left over from the dissolution in 1980 of ONCAD, the mismanaged parastatal responsible for providing farmers with inputs, including credit, and for marketing their produce.

- When world market prices for peanut products dropped well below the price the Government paid the peanut farmer, the CPSP (Price Equalization and Stabilization Fund) shifted the burden of this unpaid debt to the local banks. Unpaid crop credits - debt on peanut processing in Senegal's last two Fiscal Years (July 1 - June 30) 1981/82 and 1982/83 - totalled \$51.5 million.

- This total unpaid agriculture sector debt has nearly paralyzed the banks. For example, Senegal's leading bank for crop credit and second largest bank, the BNDS, with an initial capital of \$6 million, had accumulated a level of outstanding debt (\*) of \$134 million and was unable to meet interest payments. Senegal's four other leading banks were also seriously affected. There was danger in late CY 1983 that the banks would not be able to raise the funds needed to purchase the peanut crop, with disastrous implications for the entire economy.

- Senegal's public finance situation deteriorated sharply in FY 1982/83, an "average" year for agriculture but also an election year.

- Budget expenditures, contained at a 2.4 percent growth rate in 1981/82, increased by 18.1 percent in 1982/83. Senegal's overall deficit in a commitment basis increased from 7.0 percent of GDP in 1981/82 to 9.0 percent in 1982/83.

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(\*) Debt related to crop credit for 1981/82 and 1983/84 and for ONCAD.

— Regarding the external sector:

- The ratio of Senegal's current account deficit to GDP was estimated at 14.4 percent in 1982/83. This compared with Kenya at 11.5 percent and Mauritius at 15.0 percent in their worst circumstances in recent years; their current account deficit is presently a more manageable 5 percent.
- Debt service as a percentage of export earnings is projected to reach 18.5 percent in FY 1983/84 even with Senegal's third consecutive debt rescheduling.
- Foreign aid to Senegal reached comparatively high levels in the early 1980's and is falling off. In 1981, concessional aid amounted to \$76 per capita, nearly twice the average aid to Sahelian countries (\$44) and four times the sub-Saharan average (\$20). Total aid (concessional and non-concessional combined) reached \$700 million in 1982. In 1983, aid declined by an estimated 43 percent. Beginning in FY 1984/85, Senegal must face payments on previously rescheduled debts, as well as repurchases of previous years' borrowings from the IMF.

### III. THE NECESSARY MEASURES.

Senegal's situation thus requires strong measures, promptly. Deeply concerned, the major donors have moved, first, to urge the Government to come to terms with the IMF on a 1983/84 Standby agreement (accomplished in August, 1983). Second, the donors have engaged the Government in a discussion of the steps necessary to increase production and reduce costs in the agriculture sector. Intensive talks began in November, 1983 during two consecutive weeks. Deliberation continued in January during a week's review of the Ministry of Rural Development's draft agriculture policy paper (\*). These talks issued in the February 23, 1984 session presided by President Diouf. During this extraordinary meeting, the President reviewed the donors' shared outlook on the short-term policy and institutional reforms needed in agriculture and the economy generally (Summarized in Part IV below). He also raised more difficult questions about what Senegal's goals should be in the medium and long term and considered the process needed to determine what these should be.

Although the Government now faces a serious situation, it has confronted the same set of realities, in less menacing form, for the past five years. Senegal's structural economic reform program, the Plan de Redressement Economique et Financier (1979), was widely and justly acclaimed. Drawn up under Prime Minister Abdou Diouf in collaboration with the IMF and World Bank and with French support, the Plan de Redressement faced many of the same

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(\*) For the World Bank's comments on this draft, generally drafted on behalf of the major donors, see Annex I.



problems which confront Senegal today. The integrated series of measures set forth in the Plan met the necessary conditions for an extraordinary package of assistance which was to be granted over three years. This included an IMF Extended Fund Facility (\$243 million, later suspended), an IBRD Structural Adjustment loan/credit (\$60 million, only partially disbursed), and French and American balance of payments and budget aid. The aim of this comprehensive set of measures was to stabilize Senegal's finances and to stimulate national production, especially in agriculture. Despite three unusually poor years of rain in the past five years (1979, 1980, and 1983), Senegal has made some (but insufficient) progress in implementing most of these actions. They remain the basis of the current donor dialogue.

To measure the extent of the changes attempted under the reform plan, it is helpful to recall briefly the organization of the rural sector which prevailed in Senegal during most of the two decades since Independence. As the CDSS commented (Jan. 1981), overcentralization perhaps more than any other single factor squelched growth in agriculture. The prime purpose of Senegal's rural system was to produce, process, and export a maximum of peanut products. The State then used the margin realized from earnings on world markets, after payments to the farmers and processors, to invest in industry and to support parastatals and the already over-sized Government bureaucracy.

To maximize farm production, basically in peanuts, the Government (with donor help) established a series of Regional Development Agencies and other parastatals. These were matched to a complex system of low farm prices, expensive input subsidies, and centrally-directed "cooperatives". At the heart of the system was ONCAD (Office National de Coopération et d'Assistance pour le Développement). By 1979 ONCAD employed 4,000 and had accumulated responsibility for a range of functions: for the management of Senegal's 1700 peanut "cooperatives", for the transport of peanuts from the "cooperatives" to the oil processing plants, for the procurement and delivery to the "cooperatives" of all agriculture inputs, including farmer credit; and for the management of seed stocks. In addition, ONCAD monopolized the marketing of Senegal's cereals - millet, sorghum, and rice. The result was that nothing worked as it should. The farm sector stagnated. Productivity declined.

With the aim of correcting Senegal's rapidly deteriorating financial position and restructuring the rural sector, the Plan de Redressement called for a series of simultaneous reforms. Following is a resumé of the major provisions of the Reform Plan and of the measure of success Senegal has achieved since January 1980 in the effort to implement them.

A. In Agriculture, the Plan sought eight important changes.

1. Aim: To reorganize national agencies and rural development agencies (RDA's) and thereby decentralize their management, reduce their costs of operations, and increase their efficiency.  
Result: Whereas the Government has scored some successes, the main instrument of this reform, the program contract ("contrat-plan"), has not been as effective as hoped in giving clearer definition to the responsibilities of the RDA's and in assuring them the means they require.

- In 1980, the Government dissolved ONCAD and SONAFOR (the parastatal responsible for rural wells), thus displacing 4,600 employees. At the same time, however, the Government created SONAR as a "light" (700 temporary employees) and "temporary" organization to handle seed and fertilizer distribution.
- SAED, with responsibility for the Senegal River Basin, has been given greater autonomy as a "société nationale". In addition, SAED itself has decentralized to give officials at the level of the irrigated perimeters more authority. SAED is as a result realizing greater production at less cost.
- SODEVA, with responsibility for the Peanut Basin, has been trimmed back from 1882 workers (in 1979) to 1362 (in 1983).
- The Government has concluded program contracts with some RDA's (SAED, SODEVA, and SODEFITEX in Eastern Senegal) but not with others (SOMIVAC in the Casamance). The RDA's are expensive to run, costing an estimated \$23 million in operating subsidies in 1982/83, charges which the Government depends heavily upon donor agencies to support.
- Despite the intention declared in the Reform Plan, the Government has not succeeded in clarifying the roles of the various offices and services it offers in rural areas. It has not cut back on overlapping functions performed by the RDA's, SONAR, the centralized Ministry services (livestock, agriculture, etc.), and the Rural Expansion Centers (CER's).

2. Aim: To introduce a marketing and producer price policy designed to promote production of foodstuffs and agricultural exports.  
Result: Although the Government raised producer prices across the board as intended, the overall result has been negligible to negative.

- In April, 1981 peanut prices rose from 50 CFA/Kg to 70 CFA/Kg, minus a 10 CFA/Kg levy to cover a portion of SONAR's seed distribution costs. Unfortunately, as rains were good in 1981/82 and peanut production rose sharply causing Government liabilities to rise, the international price for peanut oil subsequently plunged from \$1,042/MT to \$585/MT. With no flexibility in the fixed producer price, Senegal's Price Equalization and Stabilization Board (CPSP) was obliged to absorb a \$51.5 million deficit over 1981/82 and 1982/83, a debt passed on to the national banks.
- In April, 1981 the Government also raised the official farm gate prices of millet and sorghum, by 25 percent. In April, 1983 official prices rose again by another 10-20 percent for rice, millet, and maize. These moves were negated, however, by two factors: the price to the consumer of imported rice and

wheat remained lower than that of domestically produced cereals; and the abolition of ONCAD eliminated any domestic marketing system which had existed for cereals. The Government and donors became fully aware of a further point, that if millet is to be marketed in urban areas, it must be transformed to make it competitive with imported cereals, both in length of shelf life and in ease of preparation.

-The Government ordered an extensive audit of the CPSP, performed by the firm of Arthur Anderson in 1982. Recently, in February, 1984, the Government placed the CPSP under the Ministry of Finance to ensure tighter financial management and to trim the CPSP's role in handling key agricultural products.

3. Aim: To reorganize the distribution of peanut seeds and other inputs and reduce subsidies.

Result: While the Government has eliminated input subsidies on some items, sales have dropped sharply. Reform of the peanut seed system has made no headway.

-Measures proposed to give village sectors responsibility for providing most of their own seed have met resistance by the farmers and Government alike. As a result, SONAR procures 120,000 MT of peanut seed each year from the farmers at harvest time and distributes seed back to the producers in time for planting. Subsidies to pay for this operation will reach an estimated \$18 million this year.

-Fertilizer subsidies (at 60 percent subsidy level) cost the Government an estimated \$4.5 million in 1981/82 and \$6.3 million in 1982/83. Nevertheless, these sums represented a progressive (but not overnight) reduction of subsidies, which, combined with a policy of cash sales, reduced use of fertilizers to record lows: farmers used only 3,000 MT in the Peanut Basin in 1983/84. Under the 1983/84 Standby Agreement, the Government was obliged to announce the total abolition of all subsidies on fertilizer, for the planting season beginning in June, 1984. This move, if unchecked, is likely to lower fertilizer use even further and reduce production in proportion.

-With the exception of irrigation pumps, the Government eliminated all equipment subsidies on July 31, 1980. The effective elimination at the same time of the agriculture credit system, which disappeared with ONCAD, and the shortage of enterprises capable of carrying out rural repairs leave the rural sector today in serious need of basic weeders, hoes, and animal traction equipment.

4. Aim: To overhaul the agriculture credit program.  
Result: When the Government abolished ONCAD in 1980, this act effectively marked the fourth general debt forgiveness for farmers in a decade. Government plans to replace the ONCAD system have not yet been implemented.  
  - The Government has drawn up plans to phase in gradually a new credit system, independent of the state, which can lend directly to village-level producer groups. Donor (Caisse Centrale) support for this organization, named the Senegalese National Bank for Agriculture Credit (CNCAS), is conditioned upon evidence that it will have direct dealings with village groups, unimpeded by the long-standing "cooperatives", which tend to be controlled by local power brokers. (See following section.)
  
5. Aim: To create and develop village sections within the "cooperatives" to carry out production and marketing operations and to provide an effective system of mutual accountability for the repayment of funds borrowed.  
Result: The Government has officially set up the village sections, empowered with the right of direct access to credit. Doubt persists, however, as to the voluntary nature of these new cooperative structures.  
  - By November 1983, the Government had established nearly all of the 4,400 village sections which it decreed appropriate. For reasons of administrative convenience, however, the Government determined that no section may be smaller than 300 members, and thus may have to include two or more villages. Based on recent experience by IFAD and the Caisse Centrale, there is some doubt that many of the village sections represent the cohesiveness believed necessary if they are to take collective responsibility for the repayment of funds borrowed from the new CNCAS.
  
6. Aim: To reorganize and improve procedures for collecting and weighing peanuts crops.  
Result: The Government has made significant progress in this area.  
  - In 1980, with the dissolution of ONCAD, the Government transferred responsibility for the marketing of peanuts to the cooperatives, which are to deliver their production directly to the oil crushing firms (SONACOS and SEIB).
  - The Government determined in 1983 that SEIB and SONACOS will directly employ the weighers at the cooperative collection points. This measure is designed to cut down the "losses" (worth \$10.8 million in 1982/83) which resulted from discrepancies between the initial weighing at the cooperative and the second weighing upon receipt at the oil crushing plant. It is too early to know if this measure has been effective.

7. Aim: To encourage private enterprise in marketing.

Result: While the Government appears to be moving in favor of the private sector, private traders have had little access to credit and the effective results of these moves are not well known.

-With the breakup of ONCAD in 1980, Senegal's cereals marketing system reverted, in practice, to the private sector although the Government sets an official purchase price. The CAA (Food Aid Agency) took responsibility for millet and maize, using private traders to buy from farmers. Rice was put in the hands of CPSP, again operating through private traders. The role of private agents (traders or cooperatives) has not been well defined, however, vis-à-vis state institutions. Nor have the traders generally had access to credit to purchase the commodities from the farmers; and the Government has not had sufficient financing to be certain it could buy from the traders.

-The whole area of private sector marketing is murky. We and others will be examining this question in some detail through a series of special studies.

8. Aim: To organize agriculture research.

Result: In a variety of ways, Government actions in this area have been positive and promising.

-The Government, with the support of donors organized by the World Bank, has worked steadily since 1980 to decentralize the national agricultural research system from the one central station at Bambey to seven regional research centers and one experimental station which accord with typical soil and climate conditions faced by Senegalese farmers.

-Concurrently, the Government has begun to undertake farm systems research in the Casamance and Sine Saloum Regions, and is prepared to begin in the Fleuve (Senegal River) Region later this year.

-The National Agriculture Research Institute (ISRA) has greatly strengthened its Macro-Economic Unit, which performs policy-oriented research and coordinates the national collection of agriculture data for policy-related purposes.

-The government has succeeded in bringing research and extension services into closer rapport through the signing of protocols and the establishment of joint work programs between ISRA on one hand, and the RDA's on the other -- SODEVA, SOMIVAC, and SAED.

Recognizing clearly, then, the prime importance of a revitalized agriculture to the flagging Senegalese economy, the Plan de Redressement through these eight reforms seeks several ends: to develop food crops, to diversify agriculture production and step up processing for export, to

increase farm incomes and, significantly, "to raise the involvement of farmers in order to limit the role of the State to that of providing incentives and technical guidance, and thus to reduce the cost of State intervention." The USAID program in Senegal supports all of these reforms, in principle, and certain of them with direct assistance (fertilizer distribution, village sections, agriculture research, RDA reform). It is evident, however, given Senegal's precarious financial situation, that the reform of the agriculture sector cannot be disconnected from the Plan's stabilization measures.

B. The stabilization of Senegal's financial situation involves improvement in the management of public finances, debt, and savings, the introduction of a restrictive credit policy and the establishment of a new foreign trade policy. In the stabilization area, the Government has dealt most directly with the IMF, albeit with the active encouragement of the major donors, especially France, the United States, and the World Bank. Because the criteria of progress are more clear cut in the financial area than in agriculture, and since progress is more closely monitored, it is possible to be more succinct in describing the relative success of Senegal's measures in the macro-economic domain.

Senegal has alternatively succeeded and failed with the IMF over the past four years. When Senegal could not meet the terms of the initial three-year Extended Fund Facility in 1981, the IMF allowed it to lapse and negotiated in its place a one-year Standby Agreement for FY 1981/82. In October, 1982, having negotiated a new Standby for 1982/83, the IMF said that Senegal had met all the terms of the previous accord and declared it one of the most successful fund programs in Africa that year. Campaigning which led to the Presidential and National Assembly elections in February, 1983, however, interfered with the restraint necessary to hold down public sector hiring (6.5 percent increase compared with 2.4 percent in 1981/82) and public sector spending (18 percent rise over the previous year). The IMF suspended the 1982/83 Standby, and for parallel reasons the World Bank cancelled the final \$17 million tranche of its \$60 million Structural Adjustment program. Subsequently, however, in August, 1983 Senegal reached agreement with the IMF on a new Standby arrangement for 1983/84.

As we have seen in the first part of this paper, Senegal's public finance situation deteriorated substantially in 1982/83 and thus became the focus of the new Standby. The present IMF program seeks to reduce the fiscal deficit as a percentage of GDP from 9.0 percent to 4.8 percent. This is to be accomplished through restraint on current expenditures, particularly public sector wages and salaries and on supplies and transfers. Current deficits on special treasury accounts and for correspondents of the treasury including CPSP and SONAR must be reduced by up to 66 percent.

In the external sector, the present Standby looks to the reduction of the ratio of the current account deficit to GDP from 14 percent to 11 percent through the application of a strict credit policy, tight external debt policies, and through a Paris Club Debt Rescheduling with terms similar to those of the preceding two years.

In order to improve the government's overall budgetary situation (the equilibrium of the CPSP, in particular), President Diouf announced increased consumer prices in August, 1983 on a wide range of items: sugar, by 15 percent; imported vegetable oils, by 22 percent; locally refined peanut oils, by 18 percent; and, most important, the consumer price of rice by 24 percent, from 105 CFA/Kg to 130 CFA/Kg. Petroleum products were increased an average of 8 percent. These new price hikes came on top of earlier government actions taken since 1980 to reduce subsidies. Prior to August, 1983, the government already had raised prices by 25 percent for bread and sugar, 31 percent for rice, 39 percent for peanut oil, 42 percent for wheat flour, and 59 percent for gasoline. It is important to note that President Diouf has been able to accomplish these very sensitive price rises without a damaging public outcry.

As a result of the sum of these measures, no further subsidies remain on consumer goods. After signing the present Standby, the government has abolished in one stroke, rather than phasing out over a period of several years, the 60 percent fertilizer subsidy. Furthermore, given the fortuitous, near doubling of the world price for peanut oil since the signing of the Standby, and by doubling the amount deducted from the price paid farmers for their peanuts (thus reducing the amount the farmer actually receives from 60 CFA/Kg to 50 CFA/Kg), the government has managed to greatly reduce the very large subsidy it had been paying in the peanut sector and has restored the accounts of the CPSP to near balance. By requiring the oil crushing firms to employ the weighers of peanuts at the cooperative collection points, as related above, the government also hopes to reduce costly peanut "losses". The largest remaining problem in the peanut area, as we have seen, are costs related to seed storage and supply (the SONAR system).

An IMF staff mission in January, 1984 reviewed the progress Senegal had made over the first half of the Standby period. The mission found that all performance criteria for December 31 had been met.

- Net domestic credit expansion (CFA 487 billion) was below the IMF ceiling (CFA 501 billion).
- Net banking sector claims on the government (CFA 107 billion) were also below the ceiling (CFA 115 billion).
- Arrears of the government and public enterprise actually decreased (from CFA 55.7 billion to CFA 54.8). Under the Standby they were only required to be held even.
- New external borrowing was substantially (90 percent) below the IMF targets.

In addition, the government showed impressive performance in limiting the growth of public sector employment, an area crucial to structural reforms. Thanks in large part to the efficiency of a new unit organized in the Presidency to control all new hiring in the public sector, the growth rate in the six month period July 1 - December 31, 1983 was limited to 0.3 percent. This was well below the 2.5 percent IMF ceiling. Beyond the control of

public sector hiring, the Government is also adjusting entries into public service training schools to meet actual positions available, and is preparing to fill new jobs through internal transfers rather than new hiring, where possible.

In the second major area of reform, -- the repayment of Senegal's seasonal agricultural debt -- the January IMF Mission determined that the government, with crucial help from France and the U.S., met the December 31 performance target. Of the total outstanding crop credit, \$51.5 million, the government now has \$15 million left to repay before June 30. Repayment on the ONCAD debt, however, has lagged behind commitments made to the banks in 1983. The IMF in January revised downward its estimate of what it is realistic to require the government to repay to a figure of \$41.5 million by June 30, or \$29.5 million in addition to the \$12 million already repaid in the first half of 1983/84.

In foreign trade, the third area of the stabilization program, the January Mission of the IMF confirmed Senegal's progress, which began in 1980, in stimulating exports and limiting imports. Current IMF estimates now project a slight improvement in the current account compared to original projections for 1983/84. The current drought, however, and consequent increases in commercial food imports may cause the present estimate of the current account deficit to be revised upwards.

#### IV. THE CURRENT STATE OF THE DIALOGUE

Where does Senegal go from here? This was the principal question which President Diouf posed to donors and key ministers in his round-table meeting of February 23, 1984. On the one hand, he pointed to Senegal's steadily increasing dependency on food imports which the country is no longer able to afford. On the other, the President noted the moribund nature of the drought-sensitive agriculture sector, despite the reforms which the government has so far introduced. What must be done, he asked, now and in the medium term, to promote economic growth?

These questions come at a time when Senegal and the donors are assessing the record of the past four years, searching urgently for a new consensus which can produce the actions and financial support necessary to bring Senegal back from the brink. For two weeks in November, 1983 the donors, led by the World Bank, reviewed with the Senegalese, led by the Ministry of Rural Development, the government's current agriculture policy and institutions. For another week in January, the major donors and the Ministry of Rural Development went over together the draft of the Ministry's proposed new plan for the agriculture sector. (See Annex I for the donor view of the draft agriculture strategy.). Because far-reaching agriculture reform goes well beyond the purview of any one Ministry, however, the President has now taken direction of the review. The next full-Cabinet debate (without donors) of agriculture sector reforms is scheduled for April, 1984.



In the main, the major donors are in common accord concerning Senegal's situation, and the steps which must be taken. The donors agree that:

- Present downward trends will not permit Senegal to continue for much longer without serious dislocations. Over the next three to five years, significant progress must, and can, be made.
- Senegal's economy is, and will remain for the foreseeable future, based on agriculture. Means to increase agriculture production, then must be the primary focus of attention.
- The heart of contemporary Senegalese agriculture is dry-land production -- peanuts (for cash) and millet (for food) -- although there is good potential for irrigation, as well. These two crops are almost perfectly matched to Senegal's soils and climatic conditions in the central belt of the country (Peanut Basin). Cultivation of these crops account for 90 percent of current land under production. At the same time as efforts must be made to increase the production of other crops in other zones (corn in the south and cowpeas in the north look especially promising) and to introduce irrigation on the 165,000 ha of land in the Senegal Basin which will be available once water is assured (land which given needed infrastructure is capable of producing a million tons of cereals annually based on proven small holder practices), the donors agree that the greatest near-term gains can be made through reforms to reduce costs in the peanut sector and to promote production in the millet-dominated cereals sector.
- The essential changes needed in the cereals sector involve pricing policies and marketing mechanisms. At the present time, imported cereals are still sold more cheaply than those produced domestically. Local cereals (millet, sorghum) also must be processed for sale in urban areas and the technology now exists to produce a millet flour with a long shelf-life, equally convenient to prepare as imported rice and wheat. In the longer term, greater efforts in research are required to produce drought resistant, higher yielding varieties of millet and sorghum.
- The Government can make important savings and improve efficiency in rural operations by reducing the Regional Development Agencies to the minimum scale needed to assure extension functions; and by phasing down (and probably abolishing) SONAR in favor of (a) competitive private sector handling of fertilizer distribution and (b) seed service and private sector production and multiplication of peanut seed. The CPSP (stabilization office) must be brought under much tighter financial control and its role thoroughly scrutinized.
- As input subsidies are eliminated, Senegalese farmers must have access to a reliable system of credit and savings for equipment, fertilizer, infrastructure, and other supplies and services. A reliable credit system will depend upon the reorganization of Senegal's cooperative system through the creation and training of village-level groups which have direct access to the national credit institution and whose members are prepared to accept collective responsibility for repayment.

In their recent consultations with the Senegalese government, the donors have deliberately placed emphasis upon these relatively well-defined measures which may be undertaken immediately and accomplished over the next three to five years. Over the medium to long term, however, in response to the President's question, "Whither Senegal?", the donors encouraged the President to establish a process which will ensure the systematic joint review, on an agreed time table: of crucial questions concerning the future of the economy, of decisions which must be taken, and of the financing which will be needed to implement these decisions.

#### V. THE ROLE OF USAID.

The USAID's current strategy, written and approved three years ago (March, 1981), seeks to assist Senegal to achieve food self-reliance by the year 2000. In large part, this has meant full support for the government in its efforts to carry out certain key reforms outlined in Senegal's structural reform program, the Plan de Redressement. In project terms this has meant, most notably, work to improve the performance, as extension agencies, of the Regional Development Agencies (SAED, SODEVA, SOMIVAC and SODESP, in livestock). Linked with the improvement of the extension agencies, AID is helping to decentralize and improve Senegal's agriculture research. To create a parallel track to the rural sector, USAID recently approved a new program to work through PVO's to encourage village-level producer groups and off-farm entrepreneurs. Beyond the Plan, USAID projects are laying the basis for national programs to deal more adequately with two long-range problems of great consequence associated with food self-reliance: the deterioration of human resources (declining health and nutrition of rural producers, linked to the population explosion) and the accelerating erosion of Senegal's environment, particularly the soil and fuelwood resources necessary to grow and cook food products.

As the Mission recognized in 1981, however, an alternative to a traditional project approach is required in Senegal's current circumstances. Unless the Government adopts new policies and achieves a measure of financial stability, necessary institutional changes cannot occur. Thus, to help at the policy and macro-economic level, the current CDSS has called for a greater proportion of non-project assistance. This accounted for 65 percent of the total USAID program in FY 1983, up from 33 percent in 1981, Title II and regional programs excluded.

The \$28 million Title III program, which has been in operation since 1981, has supported agriculture policy and environment initiatives. Agreements to undertake three other non-project activities have been signed in the last quarter of FY 1983 and the first quarter of FY 1984. These programs already have been largely effective in two important ways.

First, the conditions and covenants attached to these agreements are well in the process of being met (see Annex 2):

- The government has signed the 1983/84 Standby with the IMF and has so far managed to meet its commitments;

- Although USAID called for the phased reduction over three to five years of the fertilizer subsidy, the 1983/84 Standby obliged the Government to abolish its fertilizer subsidy outright. We believe that while this measure may have been necessary for financial reasons, overnight abolition of the subsidy may further reduce the already extremely low use of fertilizers. With the full support of the IMF, IBRD, and France, as well as the host government, USAID will redirect local currencies to provide a 20 percent subsidy on fertilizer in 1984, lest agricultural production suffer inordinately.
- The government has permitted the private sector to import U.S. fertilizer without passing through an official intermediary, a precedent in the direction of greater private sector activity in the supply of inputs.
- The government has already reduced outstanding seasonal agricultural credits by \$25 million, a target set for December 1984.
- Similarly, the government has reduced the deficit of the CPSP by 10 percent, a December 1984 target.
- The government is making an important effort to consult with the IMF, the World Bank, the French, and the U.S. Mission on reforms needed in the agricultural sector. We expect that as a result of the President's direct intervention beginning February 23rd, the Government soon will take firm decisions, and act, in accordance with these decisions.

Secondly, non-project assistance has been effective in gaining the U.S. Mission in Senegal access to the inner ring of the policy dialogue. Here, U.S. experience and counsel can assist directly in shaping the reforms which are required in the food sector.

Senegal will have need of the best counsel the United States can offer. At the same time, the USAID itself will review its strategy in Senegal and will submit a new CDSS in FY 1985. The USAID plans at least three studies before September, 1984.

- The Agriculture Sector Policy Analysis (March-June), by Abt Associates. The team leader is Charles Steedman of Michigan's Center for Research in Economic Development. This review will make recommendations concerning USAID's priorities in the agriculture sector over the next five years.
- The Credit and Savings Study (May-August), by Ohio State University, will recommend how (if at all) the U.S. should assist Senegal in establishing the new national agriculture credit institution, CNCAS.

- The Fertilizer Marketing Study (May-August), most likely by the ISRA Macro-Economic Unit as aided by Michigan State University, will recommend the ways in which the marketing of fertilizer may be turned over to the private sector.

To best serve Senegal's requirement for advice and counsel over the months ahead, as policies are formed and as the donors join the government in a process to analyze the problems of the medium to long term, we plan to provide short term expertise, as required, to assist in the analysis of key issues.

ANNEX I

Aide Mémoire

From January 9th through 13th, 1984 and at the request of the GOS, representatives from the World Bank, the CCCE(\*) and USAID discussed with the Government a draft report prepared by the Ministry for Rural Development on the current status of the agricultural economy and on certain agricultural policies to be adopted in the near future.

The purpose of this aide-mémoire is to set out for the GOS the views of the participants with regard to the analysis in the Government document and with regard to the principal recommendations for agricultural policy reform as well as to convey the participants reactions.

Mr. Sidibé's report on the economic situation in the agricultural sector, although it was incomplete at the time of the discussions, represents a considerable analytical effort of the problems of agriculture in Senegal and demonstrates substantial progress in the conception of appropriate solutions. The report also sets out a remarkable convergence of views, which was missing in the November 1983 discussions between the Ministry of Rural Development and the donors.

The participants noted that Mr. Sidibé's report is to be submitted to an inter-ministerial council meeting at the end of January and to serve as a basis for adjusting agricultural development policies. Without intending to prejudice the outcome of the GOS internal discussions this Aide-Mémoire could, if judged necessary, be used to facilitate the drafting of the final report. The aide-mémoire is organized in the following manner:

- Comments on the analysis of the current situation
- Measures with immediate impact
- Recreating a market for local cereals
- Improving the provision of inputs to rural areas (fertilizer, seeds)
- Organizing the rural areas
- Longer-term action in secondary sub-sectors.

I. The Current Situation

Senegal's agricultural potential is limited in terms of quantities of production and the diversification of production by growing ecological and climatic constraints. The result is:

- 1) great vulnerability both to climatic and world market fluctuations due to over-dependence on too few food and export crops; and

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(\*) Although the FAC was not present the French objected to the fact that they were not listed.

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- ii) an increasing food deficit as the increase in agricultural production remains consistently and substantially below population growth which accentuates Senegal's chronic balance of payments deficit.

Meanwhile, the expansion of agricultural production is inhibited by the lack of competitiveness of local produce with respect to imports (particularly in the cereals sector) which is caused by institutional and monetary (\*) as well as natural factors and which leads to a reduction in local market outlets. The expansion of production is, among other things, limited by the absence of an institutional framework to stimulate producers' initiative.

The burden of maintaining this situation is such that public finances can no longer cover the costs of subsidies or the losses of regional rural development agencies. Not only does this situation reinforce production constraints but it also makes it increasingly difficult to finance productive investments with external resources since rates of return are increasingly low.

The above analysis demonstrates that the objective of food self-sufficiency remains a long-term objective, assuming that it is in fact possible, since necessary investments cannot be financed and will at any rate be time consuming to implement.

However, during the discussions it became clear that there are some possibilities for expanding agricultural potential in the short term. Labor and land could be better utilized and yields could be increased more than marginally without large investments through the introduction of measures designed to stimulate production. This appears to be particularly true for local cereals (millet, sorghum, corn) which are grown for subsistence in rural areas, when from an economic and technical point of view, production could be substantially expanded if this production could enhance farmers' possibilities for additional stable income.

Senegal's agricultural policy should be directed towards capitalizing on this residual elasticity of productive capacity. Clearly the increase in production cannot hope to entirely replace import needs, but the creation of an environment which is favourable to domestic production requires the introduction of structures and prices which will lead to the recovery of investment in the long term.

## II. Measures with Immediate Impact

The GOS in August 1983 already took positive and courageous measures regarding the price of imported cereals. The fundamental objective of the decision to increase the price of imported rice was to reduce the public finance burden of domestic subsidies to agricultural production. It is also true that all shifts in relative prices of products which are substitutable

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(\*) France objected to the reference to monetary factors, e.g. the West African Monetary Union (WAMU).

for one another such as domestic and imported cereals lead to a change in consumption patterns and consequently in production. The measures recommended below have a double objective as did the measures adopted in August: (1) to alter the cereals' market equilibrium in favour of local products and (2) to lighten the public finance burden of support to agricultural activities. Most of the measures already appear in the recommendations in Mr. Sidibé's report and are thus consistent with GOS thinking on agricultural development policy. The paragraphs below reflect discussions between the Senegalese authorities and the donors and are designed to define more precisely the nature of systems which need to be introduced and the specifics of the implementation measures that are required.

### Recreating a Market for Domestic Cereals

The idea of creating a larger share for domestically produced cereals in local consumption has already been expressed, discussed and accepted during discussions between the GOS and donors held in November 1983, in Dakar. The objective is to stimulate national production of millet and its derivatives and of corn in order to reduce the balance of payments deficit while responding more efficiently to consumer tastes which have thus far responded in favour of imported rice because of the relatively low price and the lack of marketed surplus of local cereals.

The creation, or more accurately, the restoration of a domestic market for local cereals, is dependent on the coordinated implementation of a series of measures in the areas of consumption, production, marketing and mobilizing necessary financing.

The parameters defining the potential market for local cereals are not well known as actual consumption is limited to subsistence and to a very small urban market at abnormally high prices reflecting the scarcity of local products in urban areas. The establishment of a permanent market, therefore, is dependent on the supply and relative pricing of imported rice and of other cereals acceptable to consumers.

It is important to note that the transformation technology for millet, sorghum and corn into conservable finished products is available and has been proved. This technology for which equipment exists and, for the most part is being used, is accessible to small businesses as well as to industry and produces cracked grains, semolina and flour consistent with consumer demand.

Domestic consumption should be stimulated by substituting part of rice imports with imported millet and sorghum so that finished products of these grains can be put on the market. Food aid could be used to support this process.

Furthermore, consumer prices should be fixed according to the price differential at which demand will shift from rice to domestic cereals. In this context the consumer price of millet and sorghum and their derivatives could benefit from a temporary Government subsidy during the period over which price equilibrium is being determined. Given the current price structure it

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does not appear that the producer price is a constraint to expanded supply since income per hectare from millet and groundnuts is about the same.

A third condition for the establishment of a market is the creation of a marketing network to ensure regular supply to consumers and a guaranteed market outlet for national production. The role of the public sector in this area should be limited to the provision of incentives to traders to enter domestic cereals marketing, for example, by linking the amount of imported rice the traders receive with a certain amount of millet and sorghum and by ensuring that speculative stockpiles are not created.

Finally, it is necessary to launch a campaign to promote domestic cereals production by emphasizing the possibility for additional income as production is expanded in response to a growing market.

All of the actions briefly described above could be implemented through a pilot project for which donors have already expressed their interest and willingness to examine practical proposals for financial assistance. The project should be carefully designed taking into account the timing of cereals production in the setting up of various elements in order to ensure maximum efficiency. The project would take place in two stages. The initial phase of determining price differentials would be followed by a progressive but rapid period over which the price differentials would be put in place according to a specific schedule which could justify the use of a diminishing subsidy as a means of facilitating the transition to the new pricing. Donors could participate in the financing of necessary adjustment measures, including a partial financing of the subsidy on domestic cereals during the period necessary for determining the price differential until a final equilibrium between imports and local products has been reached. In addition, donors could, if necessary, participate in the financing of a regulating cereals stock designed to reduce the impact of seasonal price fluctuations and the impact of years of poor harvest. Finally, the lessons learned from certain on-going USAID projects could be used for the design of this proposed project.

The project described above would have various facets which are outside the authority of the Ministry for Rural Development. It is therefore desirable to relegate the coordination of these different aspects to an inter-ministerial committee endowed with the necessary authority to ensure their execution, and which could be supported by French aid, as has already been suggested, to help implement the recommended policy.

#### Improving the Provision of Inputs to Rural Areas

The problem of fertilizer: Since the supply of fertilizer particularly affects cereals production, the problem was primarily discussed from this point of view. The objective of policy should be to avoid creating a structural deficit which would require GOS financing without damaging production.

It appears useful to distinguish between two levels of distribution with minimum quantities to be distributed by the State on one hand, and the



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It appears useful to distinguish between two levels of distribution with minimum quantities to be distributed by the State on one hand, and the

satisfaction of additional needs over and above this minimum, on the other hand.

State distribution, based on resources generated from retained earnings on groundnut sales, would allow the supply of a minimum volume based on a method which is known and approved by the farmers. Given current prices and the level of retained earnings this system could function without subsidies at a level of between 15,000 and 35,000 tons of fertilizer annually, according to production levels for groundnuts. This level is considerably below estimated requirements and Mr. Sidibé's report correctly indicates that the retained earnings system must be accompanied in the future by a system of purchases in cash or on credit.

Additional needs would thus be financed by the users themselves either in cash or through recourse to short term credit to be put in place in the context of a project with the participation of the CCCE and other donors. In order for the system to be viable, it is necessary to amortize the effect on farmers' budgets. This assumes that all the cost-cutting measures possible with respect to production and distribution will take place through, if necessary, the use of non-governmental channels. This system also assumes that a temporary subsidy on the price of fertilizer is set up which would be phased out rapidly over a period of three to four years simultaneously with an increase in producer prices.

Donors would be prepared to examine the possibility of participating in the financing of a subsidy necessary throughout the adjustment period to the extent that the subsidy would be part of an overall program with specific deadlines. In addition, as is suggested in the Ministry of Rural Development report, it would be very useful to develop the use of organic and biological fertilizers.

The problem of seeds: Unlike the problem of fertilizer, seeds were essentially discussed in terms of the groundnut sector. It was recognized that the current system of distributing seeds is costly. It is, nevertheless, clear that the system has allowed the quality of production to be maintained and has limited the risks associated with quantitative variations in production not related to climatic factors, which cannot be controlled. The participants in the discussions agreed that all proposals for changing the system should carefully assess the risks these changes could introduce in relation to the savings that may be obtained.

On this basis, it appears that the present system could be reviewed according to three objectives: to reduce the overall stock, to increase the responsibilities given to the farmers, and to ensure coverage of economic risks.

The infrastructure required to store the overall national stock could be reduced by ensuring (which is in the process of being done) that the recipients of the seeds are actually the producers. Savings from this measure could be about 20,000 tons.

As a means of conserving varietal purity, the stock of selected seeds will continue to be managed by public services. It would appear sufficient in this context to maintain only an N1 seed stock (of about 10,000 tons) since the multiplication of N2 can be done by the producers and since the distinction between N2 and ordinary seeds is often unclear. The N1 seed stock would, therefore, continue to be financed by the retained earnings system and distributed by the government. The question of determining which government service should fulfill this role is still open and can be answered only through an analysis of the efficiency of the various services.

On the other hand, the management of the N2 stock and of ordinary seeds could be given to the farmers through the intermediary of village-level producer groups. Even if this system requires certain investments at the village level for storage and treatment facilities it is likely that the system will be less costly than a centralized system due to savings on the purchase, transport, management and distribution of seeds.

The donors took into consideration the risk noted by the government that certain producers, given past habits, would not conserve their own seeds, particularly in the initial period of the system. This would require that the retained earnings would be automatically applied at the time of purchase of the crop, and subsequently returned to the farmers who had actually conserved their seeds. In order to cover the risk, the state would have to maintain security stocks that would prevent drastically reduced production in areas where the farmers would not have conserved sufficient quantities of seeds to maintain cultivated areas. In all probability, these security stocks would be reduced as farmers became accustomed to managing their own seed stocks.

Finally, it is necessary to provide for the constitution by the authorities of stocks designed to reduce the effects of low rainfall. These stocks would not need to be permanent since the size of the harvest is known well before the beginning of the following year's planting. The decision with respect to the creation of a stock and its size, would depend on the percentage of losses observed.

The setting up of a system such as the one described above should be preceded by an assessment of the savings to be generated and the responsibilities of the various groups that may be called upon to play a role (SONAR, seed services, oil crushing firms) but this was not mentioned in the course of the discussions. The system should be accompanied by a program to motivate farmers to conserve their seeds as well as a carefully prepared time-table for implementation.

The donors would be prepared to examine the possibility of associating themselves with the financing of the security stock during a reasonable period when the new system is being introduced.

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### Organizing the Rural Areas

The participants noted the measures currently being studied to permit the creation of producer groups in the context of the legislation on economic groupings (Sixth book of the Code of Civil and Commercial Obligations) and to accord these groups legal status and financial autonomy. These measures constitute important progress towards a flexible organization which is capable of evolving according to the needs of rural areas. In this same spirit, the law on cooperatives should be modified in such a way as to eliminate the cooperatives' monopoly on organizing farmers and the amended rules should be modified to eliminate the requirement for a minimum number of participants.

The participants considered that the CNCAS (national credit institution) was essential to the supply of inputs, in particular, fertilizer. However, the institution should be established progressively and accompanied by procedures for risk coverage and guarantee in case of drought.

The case of the CPSP was not examined, despite its importance. The participants consider that it would be necessary to reinforce its management.

### III. Long-term Action in Secondary Sub-sectors

Participants were able to discuss in some detail the situation in the market gardening and fishing sub-sectors. The importance of these two activities for the economy, in particular fishing, makes it necessary to take certain measures although major policy reforms are not required. In both cases it would appear that the private sector plays an active role and that the public sector should limit its role to facilitating private entrepreneurs.

Although the question of RDA's was not discussed again, the position of the donors with respect to measures required for their rehabilitation, particularly regarding SAED, are identical to the ones in the summary record of the November 1983 meetings.

March 20, 1984

Annex II

USAID/Senegal Non-Project Assistance  
A Balance Sheet of Conditions Satisfied to Date

I. Agriculture Development Assistance (Sahel Development Fund): 685-0249.

Date Authorized: August 3, 1983 Agreement Signed: August 11, 1983

Purpose: To increase agriculture production through more widespread use of fertilizer, while encouraging the Government of Senegal to apply economic and financial policy reforms.

Description: This \$5.0 million Development Assistance grant finances:

- a) The importation of 9,200 MT of urea and 4,000 MT of sulphur (\$2.86 million);
- b) the freight differential at \$85/MT (\$1.37 million); and
- c) Agricultural Sector Study and Agriculture Credit Study (\$750,000).

Local currency proceeds from the sale of fertilizer will be used to strengthen village level cooperatives through literacy training programs, and to provide a subsidy (20 percent) for the market price of fertilizer in order to cushion the impact of the government's overnight abolition of the subsidy for reasons of financial stringency.

<u>Conditions Precedent to First Disbursement</u>	<u>Status</u>
1. Boiler plate (opinion of counsel, specimen signatures)	Satisfied
2. Procurement plan	Satisfied
3. Formal agreement on IMF Standby Program (1983/84)	Satisfield
<u>Conditions for Local Currency Disbursement</u>	
4. Establishment of GOS/USAID Management Committee	Satisfied
5. Certification that village level cooperatives and producer groups have direct access to credit sources.	N/A, since counter-part no longer programmed for rural credit.
6. Positive finding by Rural Credit Study on Senegal's new rural credit organizations (CNCAS)	N/A, since counter-part no longer programmed for rural credit.

### Special Covenants

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| a) Government will not increase fertilizer subsidy above these current 60 percent level before January 31, 1984.   | Satisfied.   |
| b) Government will reduce fertilizer subsidy to no more than 40 percent by Jan. 1985.  | Government in fact has abolished entirely.                 |
| c) Government will present plan to lower fertilizer subsidy to 25 percent by Jan. 1987.  | Satisfied (see above)                                      |
| d) Government will permit private sector to import urea directly without a government intermediary.  | Satisfied.   |
| e) Government will reimburse the private sector the amount of the subsidy.   | N/A, since government has removed all subsidies.           |
| f) Within 12 months (i.e., by August 1984), Government will present a plan for reorganizing the fertilizer marketing system to include the private sector.     | Study now being organized.                                 |
| g) Regarding fertilizer use Government will continue to press closer cooperation between research and extension services.                                      | Efforts are continuing.                                    |
| h) Government will meet periodically, and no less than annually, to discuss progress in implementing these covenants and to discuss the status of the economy. | Discussions have, in fact, intensified since August, 1983. |
| i) Government will reduce outstanding seasonal credit by reimbursing CFA 10 billion (\$25 million) by December 1984.   | Satisfied.   |
| j) Government will reduce the CPSP deficit by 10 percent by December, 1984.  | Satisfied.   |

### II. Economic Support Fund I: 685-0262

Date Authorized: August 3, 1983; Agreement signed: August 11, 1983.

Purpose: To assist Senegal to improve its balance of payments position, and to encourage the Government to implement the economic policy reforms set forth in the 1983/84 IMF Standby agreement.

Descriptions: This \$ 5.0 million general import program will reimburse the government \$2.5 million for the value of goods imported from the U.S. during GOS Fiscal Year 1982/83, and \$2.5 million for goods imported in FY 1983/84. An equivalent amount in local currencies will be allocated to cover the costs to the

Government of general investment activities within Senegal's 1983/84 budget. (By cable dated February 29, 1984 (Dakar 2480), the Mission has requested AID/W approve the amendment of the agreement in order to reprogram counterpart from rural roads. The purpose of this amendment is to assist the Government meet the terms of the IMF Standby agreement.)

<u>Conditions Precedent to First Disbursement</u>	<u>Status</u>
1. Boilerplate (opinion of counsel, specimen signatures)	Satisfied.
2. Procurement plan	Satisfied.
3. Agreement with IMF on 1983/84 Standby program	Satisfied.

Conditions Precedent to Disbursement of Local Currency

These CP's, dealing with the creation of a road maintenance revolving account and rural roads maintenance plan, are no longer applicable, since local currencies are no longer to apply against rural roads.

Special Covenants

a) Efficient import procedures	The USAID has requested that the total \$5.0 million be made direct reimbursable, thus this covenant will not apply.
b) Road Maintenance Budget	N/A
c) Road Maintenance and Improvement	N/A
d) Periodic Consultation on economy	Consultations intense.

Comment: By Dakar 2480, as part of the amendment of the project, the Mission recommended additional conditionality directed at the reforms of the CPSP, newly transferred to the Ministry of Finance.

As Conditions Precedent to Disbursement of Local Currency, the USAID proposed that the GOS shall agree to:

- 1) Suspend all credit sales of PL-480 commodities;
- 2) Accept the principle of hiring outside technical assistance to reinforce CPSP financial management and establish an acceptable date by which technical experts will be recruited; and
- 3) Undertake an immediate audit of CPSP's accounts.

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As Covenants, the GOS would agree to:

a) examine the possibility of reducing the CPSP's activities and of simplifying or eliminating the purchasing and marketing roles of the CPSP; and

b) require the CPSP to produce clear accounts of its overall situation by quarter and according to its various sectors of intervention (i.e. peanut, rice, sugar, tomatoes, flour, and cotton). The first accounts should be completed by July 1984 for the period March-June.

III. Economic Support Fund II: 685-0278

Date Authorized: December 7, 1983

Date signed: December 17, 1983.

Purpose: To encourage and assist the Government of Senegal to implement the economic policy reforms set forth in the 1983/84 IMF Standby agreement.

Description: A \$10 million cash transfer to help the Government of Senegal reduce outstanding seasonal crop credits owed to the national banks.

<u>Conditions Precedent to Disbursement</u>	<u>Status</u>
1. Boiler plate (specimen signature, open bank account)	Satisfied.
<u>Special Covenants</u>	
2. Government will provide USAID with copies of reports to IMF and other donors regarding compliance with stabilization program.	Satisfied.
4. Government will implement reforms in the agriculture sector as agreed with USAID and as consistent with the new sector policy being prepared by Government with donor help.	President Diouf is now considering what actions to take in view the sector policy statement and his February 23rd conference with chief donors representatives (see main text).
5. The Program Agreement and Grant shall be force from all Senegalese taxes and fees.	Satisfied.

JP